

Before the  
Federal Communications Commission  
Washington, D.C. 20554

In the Matter of

Federal-State Joint Board on Universal  
Service – Statement of Elliott Smith, Iowa  
Utilities Board, for the July 31, 2003,  
En Banc Hearing on the Portability of High-  
Cost Universal Service Support and the  
ETC Designation Process

CC Docket No. 96-45  
FCC 03J-1

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Federal Communications Commission  
Office of Secretary

**Statement of Elliott Smith  
Iowa Utilities Board**

As a member of the Iowa Utilities Board (IUB), I am pleased to be included as a participant of this panel focused on questions and issues involving the Eligible Telecommunications Carrier (ETC) designation process

**Introduction and Background**

Iowa has a unique telecom landscape. There are approximately 153 wireline Incumbent Local Exchange Carriers (ILECs) currently operating in Iowa. Only the three largest carriers are rate regulated by the IUB. The average size of the small companies is approximately 700 access lines and they generally provide service to the rural areas of the state. The complexity of this market is compounded by the addition of thirty-six competitors with approved ETC designations, many of which serve parts of the state's rural areas.

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The majority of the small incumbent companies are experiencing either no access line growth or, in some cases, a slight reduction in access lines. This appears to be caused by a number of factors: (1) slow population growth in Iowa as a whole, (2) migration of rural residents to more urban areas, and, (3) deployment of advanced services which no longer utilize second or additional voice lines. In the absence of access line growth, these companies are likely to find it difficult to reduce their average cost per customer.

Throughout Iowa, most customers have the option of obtaining voice service from at least one wireline and one wireless service provider, although these services may not be interchangeable for many customers. At this time, it appears most wireless service providers have positioned themselves as an alternative to long distance with "free anytime, anywhere minutes" in their service offerings. Generally, it appears consumers are using wireless service as a complement to traditional wireline service, although some users also seem willing to supplement the quality and dependability of wireline services with the convenience of wireless mobility.

The ILEC industry has made substantial infrastructure investments in Iowa and has developed a long history of providing dependable and quality service considered essential by both federal and state policy makers. Competitors are also in the process of building and enhancing facilities to provide many different services, including (but not limited to) voice grade services, using a variety of

technologies. These systems all have costs, some of which may (or may not) be appropriate for universal service funding.

### **Discussion of Issues**

I would like to submit comments on three issues crucial to the Universal Service Fund (USF) and the ETC designation process. The issues are (1) designation of a wireless carrier's service area for ETC status, (2) application of uniform service quality standards, and, (3) portability of universal service funds.

#### **1. Designation of a Wireless Carrier's Service Area**

In Iowa, defined wireline exchange boundaries have evolved over decades based on the ownership of telecommunications facilities and the location of the customers receiving service. The exchanges are irregular in shape and do not follow county, municipal, or section lines. Often, the exchanges of a company that serves multiple exchanges are separated by exchanges served by other providers. The result is an exchange map that looks a bit like a jigsaw puzzle.

Moreover, many of the established wireline exchanges include both urban and rural areas. In granting ETC status to wireline competitors, the IUB has been very concerned about the potential for cream skimming by Competitive Local Exchange Carriers (CLECs). Some CLECs have been very clear that they would prefer serve low-cost urban customers, but the IUB has typically required that the

CLEC offer to serve all eligible customers within the historic ILEC exchange if the CLEC is to be designated an ETC

In contrast, wireless service areas are set by the Federal Communications Commission (FCC) and are based on county lines. Wireless and wireline service areas do not correspond with each other. Often, wireless service providers cannot cover entire wireline exchanges, let alone study areas, because of the irregular shape of the wireline exchanges and the limitations of county-by-county licensing. This difference in service area is not something the wireless carrier has chosen, rather, it is an outcome of the FCC's licensing practices. Because it is not the result of the carrier's decision, it does not appear to raise the same concerns related to cream skimming.

Accordingly, the IUB is considering rules that would allow wireless service providers to be designated as ETCs even though the wireless service area may be less than the wireline incumbent's historical service area. Allowing wireless carriers the opportunity of providing local service to parts of exchanges or wire centers (less than an entire study area) may help the provider maximize the use of its wireless serving area license and give more local service choices to consumers.

## **2. Uniform Service Quality Standards**

Reasonable service quality standards are imperative to providing dependable, high-quality local service for consumers in Iowa. State service quality

standards should be applicable to all ETC-certified service providers regardless of how the service is provided

The Joint Board on Universal Service (Joint Board) has recommended that the FCC not impose federal technical or service quality standards as a condition of receiving universal service support \* The Joint Board also indicated that many states have already implemented service quality standards and that federal technical requirements would largely be duplicative of state efforts as, for many years, the states have carried the principle burden of ensuring that carrier service quality is maintained

I am generally in agreement with these recommendations of the Joint Board The FCC should not impose federal service quality standards because these issues are best handled by each individual state Service standard requirements vary by state and it would be difficult for the FCC to establish uniform national requirements without imposing on the regulatory authority of individual states I would suggest that the requirement of service quality measurements should be applied uniformly to all ETC carriers within each individual state, to the extent it is technologically feasible to do so Competitive ETCs should provide service meeting the same (or similar) quality standards as traditional wireline providers before the competitive ETC can receive federal universal service funding Iowa is

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\* Federal-State joint Board on Universal Service, CC Docket No. 96-45, Recommended Decision, FCC 02J-1 (rel. July 10, 2002) (Recommended Decision), para 63

currently in the initial stages of a proposed rulemaking to deal with these very issues

Competitive ETCs should also be required to provide the same list of minimum services as is required of the incumbent wireline carriers. In addition to the standard list of supported services, as set by the FCC, other services could include E911. This requirement would place all carriers on an equal footing when providing basic competitive services within each state.

### **3. Portability of Universal Service Funds**

The portability of support to competitive ETCs is one of the biggest challenges facing USF, at least under the current rules and procedures. USF loop cost for a rural carrier is determined by using the incumbent's investment and expense amounts. High cost support payments are based on the relationship between the incumbent carrier's cost per loop and the national average loop cost. The majority of the 150-plus small rural companies in Iowa receive high cost support payments. This is an indication of substantial per-customer investment and expense for these organizations.

Wireless ETC service providers are receiving high cost universal service support payments based upon the costs of the incumbent carrier. Wireless carriers do not have the same facilities or investments as the incumbent wireline carriers. The infrastructure of wireline carriers appears to consist of towers, antennas,

switching mechanisms, and transport between cell sites. Costs for providing wireless service have not generally been furnished to regulators, but on the surface it appears that the cost of providing service by a wireless carrier may be less than that a wireline carrier (on a per-customer basis).

Therefore, it may be appropriate that the levels of support paid to the wireless carriers or the CLECs should be something less than the current support payments paid to the ILECs. I encourage the Joint Board to consider USF support payments paid on the basis of each carrier's cost to serve, provided that the ETC or CLECs costs are below that of the incumbent.

### **Conclusion**

This statement and the comments contained within are submitted for consideration by the Joint Board on Universal Service as part of the July 31, 2003, *En banc* Hearing on the Portability of High-Cost Universal Service Support and the ETC Designation Process.

Respectfully submitted,

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